

ALBIA MUNICIPAL WATERWORKS
ALBIA, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2016

ALBIA MUNICIPAL WATERWORKS

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ALBIA MUNICIPAL WATERWORKS

OFFICIALS
JUNE 30, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jack Scieszinski	Chairman	April 2, 2017
Charlie Sinnott	Secretary	April 2, 2021
Helen Foster	Trustee	April 2, 2019
Patty Stuchel	Office Manager	Indefinite
Amy Robinson	Clerk	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Albia Municipal Waterworks
Albia, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Albia Municipal Waterworks as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error. Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the Albia Municipal Waterworks, as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Waterworks financial statements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Waterworks' Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 4 through 6 and 16 through 21 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2016 on our consideration of Albia Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Albia Municipal Waterworks' internal control over financial reporting and compliance.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
November 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Albia Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Waterworks' financial statements which follow.

FINANCIAL HIGHLIGHTS

The Waterworks' total receipts decreased by approximately .16% or \$2,462 from 2015 to 2016.

The Waterworks' total disbursements increased approximately 4.85% or \$67,684 from 2015 to 2016.

The Waterworks' total cash basis fund balances increased approximately 18.34% or \$63,034 from 2015 to 2016.

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information about the Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year and the Waterworks' proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2016.

BASIS OF ACCOUNTING

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

FINANCIAL ANALYSIS OF THE WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

The purpose of the statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statements are able to determine the Waterworks' financial position by analyzing the increase and decrease in cash balances.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. The City of Albion pays the Waterworks contract fees to include sewer and landfill charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2016 and 2015 is presented below:

<u>CHANGES IN CASH BASIS NET POSITION</u>		
	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Receipts:		
Use of money and property	\$ 15,332	\$ 15,062
Charges for service	810,159	906,648
Sewer and landfill fees collected for City	588,466	522,452
Miscellaneous	<u>109,875</u>	<u>82,132</u>
Total receipts	<u>1,523,832</u>	<u>1,526,294</u>
Disbursements:		
Distribution expenses	97,438	93,695
Distribution outlay	41,649	45,299
Administration and other expenses	660,161	641,433
Sewer and landfill fees remitted to City	533,380	509,544
Debt service:		
Principal paid	73,000	71,000
Interest and fees paid	27,105	29,413
Capital outlay	<u>28,065</u>	<u>2,730</u>
Total disbursements	<u>1,460,798</u>	<u>1,393,114</u>
Net change in cash balance	63,034	133,180
Cash balance beginning of year	<u>343,674</u>	<u>210,494</u>
Cash balance end of year	\$ <u>406,708</u>	\$ <u>343,674</u>
Cash Basis Fund Balance		
Restricted for:		
Bond principal and interest payments	\$ 10,682	\$ 9,987
Customer water deposits	110,446	95,554
Improvements	<u>132,481</u>	<u>92,909</u>
Total restricted cash basis fund balance	<u>253,609</u>	<u>198,450</u>
Unrestricted:	<u>153,099</u>	<u>145,224</u>
Total cash basis fund balance	\$ <u>406,708</u>	\$ <u>343,674</u>

The Waterworks' unrestricted cash balance is available for use in the routine operation of the distribution and administrative areas of the Waterworks and for capital improvements in the distribution area. The Waterworks' restricted cash balances are restricted funds for the repayment of the bond principal and interest payments, customer water deposits, and sewer and landfill charges due to the City.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Waterworks amended its budget once. The amendment resulted in an increase in budgeted receipts and disbursements related to business type activities.

The Waterworks total receipts were approximately \$68,003 less than budgeted. The Waterworks total disbursements were approximately \$94,135 less than budgeted for the year.

DEBT ADMINISTRATION

At June 30, 2016, the Waterworks had \$761,000 in revenue bonds outstanding, compared to \$834,000 at June 30, 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The Waterworks appointed officials considered many factors when setting the fiscal year 2017 budget, including water main replacements, upkeep of current mains and fees that will be charged.

Current economic conditions beyond the Waterworks Trustees control play a significant role in the daily operations of the distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the distribution of water.
- The need to maintain up-to-date technology at a reasonable cost.

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Waterworks' finances and to show the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jack Scieszinski, Albia Municipal Waterworks Chairman, 120 South A Street, Albia, Iowa 52531.

BASIC FINANCIAL STATEMENTS

ALBIA MUNICIPAL WATERWORKS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Enterprise Fund Water</u>
Operating receipts:	
Charges for service	\$ 810,159
Miscellaneous	109,875
Total operating receipts	<u>920,034</u>
Operating disbursements:	
Business type activities	<u>799,248</u>
Total operating disbursements	799,248
Excess of operating receipts over operating disbursements	120,786
Non-operating receipts (disbursements):	
Interest on investments	2,132
Tower and ground space lease	13,200
Sewer and landfill fees collected for City	588,466
Sewer and landfill fees remitted to City	(533,380)
Debt service	(100,105)
Capital outlay	<u>(28,065)</u>
Net non-operating receipts (disbursements)	<u>(57,752)</u>
Change in cash balance	63,034
Cash balance beginning of year	<u>343,674</u>
Cash balance end of year	\$ <u>406,708</u>
Cash Basis Fund Balance:	
Restricted for:	
Bond principal and interest payments	\$ 10,682
Customer water deposits	110,446
Improvements	<u>132,481</u>
Total restricted cash basis fund balance	253,609
Unrestricted	<u>153,099</u>
Total cash basis fund balance	\$ <u>406,708</u>

ALBIA MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Albia Municipal Waterworks (Waterworks) is a component unit of the City of Albia, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Assets and Net Position

Funds set aside for bond principal and interest payments, customer water deposits and sewer and landfill charges due to the City are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 – CASH AND POOLED INVESTMENTS

The Waterworks deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The Waterworks investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Waterworks.

ALBIA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 3 – REVENUE BONDS PAYABLE

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Total
	Principal	Interest	
2017	\$ 75,000	\$ 13,318	\$ 88,318
2018	77,000	12,005	89,005
2019	80,000	10,657	90,657
2020	82,000	9,258	91,258
2021	84,000	7,823	91,823
2022-2025	<u>363,000</u>	<u>16,118</u>	<u>379,118</u>
	\$ <u>761,000</u>	\$ <u>69,179</u>	\$ <u>830,179</u>

On November 23, 2005, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$1,250,000 of water revenue bonds with interest at 3.00% per annum. On May 11, 2016, the Waterworks' was approved for a rate reduction to 1.75% per annum beginning June 1, 2016. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The \$1,250,000 in funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2006 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,250,000 in water revenue bonds issued in November 2005, and to repay any additional parity obligations which come due during the term of the revenue bonds. The bonds were issued to pay for water main repair and replacement. The bonds are payable solely from water customer net receipts and are payable through 2025. Annual principal and interest payments on the revenue bonds are expected to require less than 48% of net receipts. The total principal and interest remaining to be paid on the revenue bonds is \$830,179. For the current year, principal and interest paid on the revenue bonds and total customer net receipts were \$98,020 and \$120,786 respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The revenue bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Waterworks, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.
- e) All users of the System, including the City, shall pay for usage.

ALBIA MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – PENSION PLAN

Plan Description – IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the Utility contributed 8.93 percent of covered payroll for a total rate of 14.88 percent.

ALBIA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 4 – PENSION PLAN (Continued)

The Waterworks' contributions to IPERS for the year ended June 30, 2016 were \$17,020.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Waterworks' reported a liability of \$135,993 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the net pension liability was based on the Waterworks' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Waterworks' proportion was .002735 percent, which was a decrease of .000018 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Waterworks' pension expense, deferred outflows of resources and deferred inflows of resources totaled \$11,238, \$26,405 and \$32,408 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00 percent per annum, based on 3.00 percent inflation and 1.00 percent real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100</u> %	

ALBIA MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Waterworks' proportionate share of the net pension liability	\$ 238,099	\$ 135,993	\$ 49,808

Pension Plan Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS' financial report which is available on IPERS' website at www.ipers.org.

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The Waterworks operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$750 for single coverage and \$1,875 for family coverage. For the year ended June 30, 2016, the Waterworks contributed \$114,836, and plan members eligible for benefits contributed \$0 to the plan.

NOTE 6 – COMPENSATED ABSENCES

Waterworks' employees accumulate a limited amount of earned but unused vacation, compensatory and personal leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation, compensatory and personal leave payable to employees at June 30, 2016, is \$12,700. The liability has been computed based on rates of pay in effect at June 30, 2016.

ALBIA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 7 – INTRAFUND TRANSFERS

The detail of intrafund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise:	Enterprise:	
Debt service	General	\$ 100,800
Improvement	General	<u>62,400</u>
Total		\$ <u>163,200</u>

Transfers generally move resources from the account required to collect the resources to the account statutorily required to disburse the resources.

NOTE 8 – LEASE AGREEMENT

The Waterworks is leasing antenna space on the water tower to Farmers Cellular Telephone Company, Inc. (Tenant). The initial term of the lease began April, 2010. The Waterworks received \$13,200 from this lease in fiscal year 2016, and is scheduled to receive \$1,100 per month from this lease until April, 2020, with four additional 5-year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 10% over the previous year's base rent. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until fiscal year 2040.

NOTE 9 – OPERATING LEASE AGREEMENT

The Waterworks is leasing office space from the City of Albia for \$150 per month. The initial term of the lease began January 1982. Although the lease expired December 2011, the City and the Waterworks continue with the original terms of the lease on a month to month basis. The Waterworks paid \$1,800 for this lease in the fiscal year 2016.

NOTE 10 – RISK MANAGEMENT

The Waterworks is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

ALBIA MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 – RISK MANAGEMENT (Continued)

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' contributions to the Pool for the year ended June 30, 2015 were \$14,824.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Waterworks also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 each accident, \$1,000,000 memo limit and \$1,000,000 each employee limit. The Waterworks assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Waterworks has a partially self-funded health insurance program. The Waterworks funds the deductible amounts, and funds up to \$500 per year per employee for medical related costs not covered by insurance. During the year, the Waterworks reimbursed its employees \$3,036 in relation to the partially self-funded health insurance program.

NOTE 11 – WATER PURCHASE CONTRACT

The Waterworks agreed to a forty year water purchase agreement with Rathbun Regional Water Association in 1999. As part of this forty year agreement, the Waterworks agreed to purchase a minimum of three million gallons of water per month from Rathbun Regional Water Association. The Waterworks currently pays Rathbun Regional Water Association \$2.80 per thousand gallons for the first five million gallons of water purchased per month, and \$1.60 per thousand gallons in excess of five million gallons of water purchased per month. Based on the minimum water purchase requirements of three million gallons of water per month and based on current water rates, the Waterworks will be obligated to pay Rathbun Regional Water Association a minimum of \$100,800 per year for purchased water through the 2039 year.

Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, and in fiscal year 2016, approximately 106,091,000 gallons of water were purchased by the Waterworks. The total cost of water purchased was \$241,745 during the year ended June 30, 2016. The Waterworks does not have the capability to produce its own water for resale. It appears the only source of water available to the Waterworks is from Rathbun Regional Water Association.

ALBIA MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENT

The Waterworks adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

NOTE 13 – RECLASSIFICATIONS

Certain amounts for the year ended June 30, 2015 have been reclassified to conform with the June 30, 2016 presentation.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 10, 2016, the date the financial statements were available to be issued.

OTHER INFORMATION

ALBIA MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION
YEAR ENDED JUNE 30, 2016

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual</u>
		<u>Original</u>	<u>Final</u>	<u>Variance</u>
Receipts:				
Use of money and property	\$ 15,332	\$ 15,400	\$ 15,400	\$ (68)
Charges for service	1,398,625	1,455,485	1,557,610	(158,985)
Miscellaneous	<u>109,875</u>	<u>11,825</u>	<u>18,825</u>	<u>91,050</u>
Total receipts	<u>1,523,832</u>	<u>1,482,710</u>	<u>1,591,835</u>	<u>(68,003)</u>
Disbursements:				
Business-type activities	<u>1,460,798</u>	<u>1,477,308</u>	<u>1,554,933</u>	<u>94,135</u>
Excess of receipts over disbursements	63,034	\$ <u>5,402</u>	\$ <u>36,902</u>	\$ <u>26,132</u>
Cash balance beginning of year	<u>343,674</u>			
Cash balance end of year	\$ <u>406,708</u>			

ALBIA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

JUNE 30, 2016

The Albia Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted receipts by \$272,325 and budgeted disbursements by \$240,825. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amount budgeted.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORKS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

OTHER INFORMATION

	<u>2016</u>	<u>2015</u>
Waterwork's proportion of the net pension liability	0.002735 %	0.002753 %
Waterwork's proportionate share of the net pension liability	\$ 135,993	\$ 111,415
Waterwork's covered-employee payroll	\$ 188,578	\$ 183,830
Waterwork's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11 %	60.61 %
IPERS net position as a percentage of the total pension liability	85.19 %	87.61 %

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Waterworks will present information for those years for which information is available.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS
(IN THOUSANDS)
OTHER INFORMATION

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 17	\$ 17	\$ 16
Contributions in relation to the statutorily required contribution	<u>(17)</u>	<u>(17)</u>	<u>(16)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Waterwork's covered-employee payroll	\$ 190	\$ 189	\$ 184
Contributions as a percentage of covered-employee payroll	8.93 %	8.93 %	8.93 %

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 16	\$ 14	\$ 12	\$ 10	\$ 9	\$ 11	\$ 10
<u>(16)</u>	<u>(14)</u>	<u>(12)</u>	<u>(10)</u>	<u>(9)</u>	<u>(11)</u>	<u>(10)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 181	\$ 173	\$ 170	\$ 156	\$ 145	\$ 177	\$ 167
8.67 %	8.07 %	6.95 %	6.65 %	6.35 %	6.05 %	5.75 %

ALBIA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – PENSION LIABILITY

YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

SUPPLEMENTARY INFORMATION

ALBIA MUNICIPAL WATERWORKS

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Customer Deposit</u>	<u>Debt Service</u>	<u>Improvement</u>	<u>Total</u>
<u>OPERATING RECEIPTS:</u>					
Charge for service:					
Sale of water to meter customers	\$ 768,996	\$ -	\$ -	\$ -	\$ 768,996
Sales of water - tank service	947	-	-	-	947
Other charges for service	30,676	-	-	-	30,676
Sale of supplies	9,540	-	-	-	9,540
	<u>810,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>810,159</u>
Miscellaneous:					
Sales tax collected	60,138	-	-	-	60,138
Refunds and reimbursements	1,030	-	-	-	1,030
Customer deposits	-	31,050	-	-	31,050
Miscellaneous	17,657	-	-	-	17,657
	<u>78,825</u>	<u>31,050</u>	<u>-</u>	<u>-</u>	<u>109,875</u>
TOTAL OPERATING RECEIPTS	<u>888,984</u>	<u>31,050</u>	<u>-</u>	<u>-</u>	<u>920,034</u>
<u>OPERATING DISBURSEMENTS:</u>					
Business type activities:					
Distribution expenses:					
Labor	78,677	-	-	-	78,677
Truck expense	1,595	-	-	-	1,595
Repairs tools and equipment	249	-	-	-	249
Gasoline and oil	2,623	-	-	-	2,623
Supplies	1,848	-	-	-	1,848
Water tests	1,958	-	-	-	1,958
Electric	1,682	-	-	-	1,682
Shop fuel	889	-	-	-	889
Shop telephone	503	-	-	-	503
Shop water	568	-	-	-	568
Independent contractor	5,725	-	-	-	5,725
Clothes	1,121	-	-	-	1,121
	<u>97,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,438</u>
Distribution outlay:					
Supplies	3,925	-	-	36,028	39,953
Equipment	1,343	-	-	-	1,343
Independent contractor	353	-	-	-	353
	<u>5,621</u>	<u>-</u>	<u>-</u>	<u>36,028</u>	<u>41,649</u>

ALBIA MUNICIPAL WATERWORKS

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Customer Deposit</u>	<u>Debt Service</u>	<u>Improvement</u>	<u>Total</u>
<u>OPERATING DISBURSEMENTS:</u> (Continued)					
Business type activities: (Continued)					
Administrative and other expenses:					
Salaries	\$ 86,685	\$ -	\$ -	\$ -	\$ 86,685
Customer service wage	45,149	-	-	-	45,149
Postage	9,625	-	-	-	9,625
Supplies	6,011	-	-	-	6,011
Office rent	1,800	-	-	-	1,800
Telephone	4,733	-	-	-	4,733
Publishing	1,196	-	-	-	1,196
Audit and filing fee	4,848	-	-	-	4,848
Customer deposits	-	16,158	-	-	16,158
School	703	-	-	-	703
Dues	1,440	-	-	-	1,440
Insurance	14,824	-	-	-	14,824
Legal	295	-	-	-	295
Maintenance contracts	4,676	-	-	-	4,676
Employee insurance	115,353	-	-	-	115,353
Sales tax	60,539	-	-	-	60,539
Payroll taxes	33,075	-	-	-	33,075
Employee medical reimbursements	11,306	-	-	-	11,306
Purchased water	241,745	-	-	-	241,745
	<u>644,003</u>	<u>16,158</u>	<u>-</u>	<u>-</u>	<u>660,161</u>
 TOTAL OPERATING DISBURSEMENTS	 <u>747,062</u>	 <u>16,158</u>	 <u>-</u>	 <u>36,028</u>	 <u>799,248</u>
 Excess (deficiency) of operating receipts over (under) operating disbursements	 141,922	 14,892	 -	 (36,028)	 120,786

ALBIA MUNICIPAL WATERWORKS

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Customer Deposit</u>	<u>Debt Service</u>	<u>Improvement</u>	<u>Total</u>
<u>NON-OPERATING RECEIPTS (DISBURSEMENTS):</u>					
Interest on investments	\$ 2,132	\$ -	\$ -	\$ -	\$ 2,132
Tower and ground space lease	-	-	-	13,200	13,200
Sewer and landfill fees collected for City	588,466	-	-	-	588,466
Sewer and landfill fees remitted to City	(533,380)	-	-	-	(533,380)
Debt service:					
Principal redemption	-	-	(73,000)	-	(73,000)
Interest paid	-	-	(25,020)	-	(25,020)
Service fees	-	-	(2,085)	-	(2,085)
Capital outlay	<u>(28,065)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,065)</u>
Net non-operating receipts (disbursements)	29,153	-	(100,105)	13,200	(57,752)
Excess (deficiency) of receipts over (under) disbursements	171,075	14,892	(100,105)	(22,828)	63,034
Transfers in (out)	<u>(163,200)</u>	<u>-</u>	<u>100,800</u>	<u>62,400</u>	<u>-</u>
Change in cash balances	7,875	14,892	695	39,572	63,034
Cash balances beginning of year	<u>145,224</u>	<u>95,554</u>	<u>9,987</u>	<u>92,909</u>	<u>343,674</u>
Cash balances end of year	\$ <u>153,099</u>	\$ <u>110,446</u>	\$ <u>10,682</u>	\$ <u>132,481</u>	\$ <u>406,708</u>

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2016

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
Water Revenue Bonds	November 23, 2005	1.75%	\$ 1,250,000

<u>Date of Issue</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
November 23, 2005	\$ 834,000	-	\$ 73,000	\$ 761,000	\$ 25,020	\$ -

ALBIA MUNICIPAL WATERWORKSBOND MATURITIESYEAR ENDED JUNE 30, 2016

<u>Year Ending June 30,</u>	<u>Water Revenue Bonds</u>	
	<u>Issued November 23, 2005</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2017	1.75 %	\$ 75,000
2018	1.75	77,000
2019	1.75	80,000
2020	1.75	82,000
2021	1.75	84,000
2022	1.75	87,000
2023	1.75	89,000
2024	1.75	92,000
2025	1.75	<u>95,000</u>
		\$ <u>761,000</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Albia Municipal Waterworks
Albia, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Albia Municipal Waterworks, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Albia Municipal Waterworks' basic financial statements, and have issued our report thereon dated November 10, 2016. Our report expressed an unmodified opinion on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Albia Municipal Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Albia Municipal Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of Albia Municipal Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-16 and II-B-16 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Albia Municipal Waterworks' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Albia Municipal Waterworks' operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Albia Municipal Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Albia Municipal Waterworks' Responses to the Findings

Albia Municipal Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Albia Municipal Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Albia Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
November 10, 2016

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2016

Part I: Summary of the Independent Auditor's Results:

- a) An unmodified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Water utility billings, collections, deposits, posting to customer accounts and the cash receipts journal and reconciliation of billings to collections and delinquent accounts are all sometimes done by the same person. Also, bank accounts are not reconciled by an individual who does not sign checks, handle or record cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Albia Municipal Waterworks (Waterworks) should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Waterworks officials.

Response – The Waterworks will, to the best of our abilities, continue to review this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

II-B-16 Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The Waterworks does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the Waterworks continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add addition staff at this time.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

ALBIA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016

Part III: Other Findings Related to Required Statutory Reporting

- III-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- III-B-16 Questionable Expenses – No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-C-16 Travel Expense – No expenditures of Waterworks' money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-16 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- III-E-16 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-16 Board of Trustee Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- III-G-16 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks' investment policy were noted. The Utility has not updated its investment policy for several years.

Recommendation – The Utility should update its investment policy.

Response – The Utility updated its investment policy in July 2016.

Conclusion – Response accepted.

- III-H-16 Revenue Bonds – No instances of non-compliance with the revenue bond provisions were noted.

- III-I-16 Taxable Fringe Benefits – Personal use of a Waterworks vehicle is not taxed to a Waterworks employee as a taxable fringe benefit, as required by the Internal Revenue Service (IRS) regulations.

Recommendation – Personal use of a Waterworks vehicle should be taxed as a taxable fringe benefit in accordance with IRS regulations.

Response – We will review this.

Conclusion – Response acknowledged.